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Consequences of wage gaps in the EU

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Abstract

This article dwells on a local specificity with apparently little interest for the European construction, but which we deem to be on at least an equal footing in importance with the issues of monetary, budget, and fiscal coordination: the effects of wage gaps between the EU member states. The data and information considered for the writing of this article indicate that, although the gap seems to be diminishing, the still wide differences between member countries have led (and continue to do so) to major consequences in terms of competition and competitive edge in their domestic markets, to imbalances in their budgets, fiscal, and labour policies, but also in the quality of their citizens' lives.

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1. Introduction

History has seen a variety of approaches to the wage issue – from the classical and neoclassical theories to those of John Maynard Keynes, the post-Keynes, and the Marxist theories, all of which define the salary as a price for labour, and analyse the value, the changes and the hierarchy of salaries.In the past decades, in light of the human capital theory of Gary Becker, salaries have been judged in correlation with the individual worker's productivity, and with marginal productivity, but also as an element of the equation salary rise – inflation – unemployment.

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Wage modelling was strongly rooted in the individual and the marginal productivity, to which a new correlation was added between salary, inflation, and unemployment.

With the advent of globalisation of the economy, the reference criteria regarding productivity and salaries has extended considerably, and the economic theorists are looking for new answers, new solutions.

The article attempts to dwell on a situation that does not seem to raise the interest of the European fora, but which, in our view, it at least equal in importance to that attached to monetary, budget, and fiscal coordination.

Although seemingly on a diminishing trend, the still large gap between the workers' pay in the various European Union (EU) member states has caused, and continues to do so, major consequences in terms of competition and competitive edge in the internal EU market.

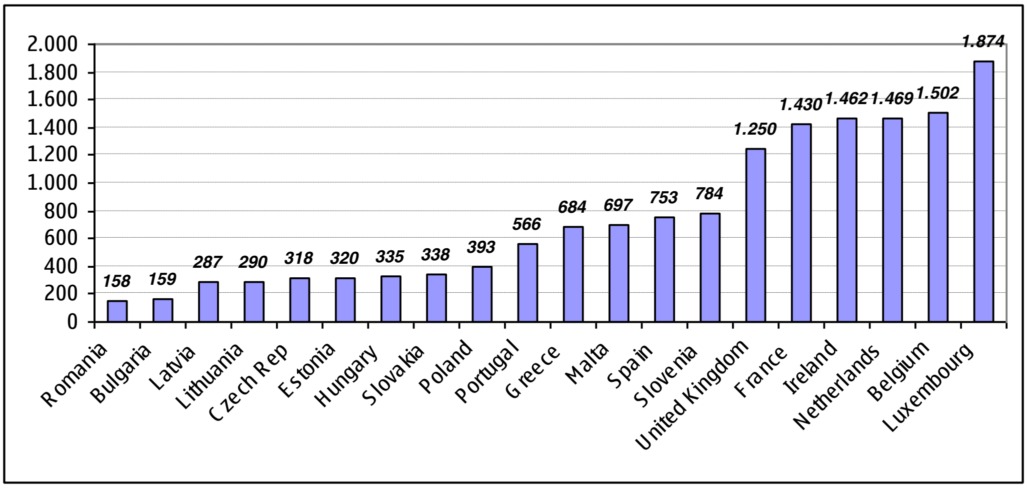
As long as the prices and costs of some of the production factors are designed to reach convergence and harmonization, while wage gaps do not follow the same trend, this discrepancy may be one of the causes that distort the market mechanisms, influence consumption and the quality of life, trigger the delocalisation of industrial activities and services, and, paralleled with the aging of the population, makes it difficult for the new member states to keep its young, active, and well-trained workforce that is critical for the normal development of their economies, particularly in economic sectors of vital importance such as education, health, scientific research, the upgrading of infrastructures, and access to services of general interest.

When regarded from the psychological and ethical points of view, the matter may be considered as the expression of an array of forms of discrimination between the European citizens, such as social dumping, but also in terms of disfunctionalities in the welfare and pension budgets, etc.

After the onset of the economic crisis in 2007, the economic imbalances and the external deficits of some of the states in the Euro zone have been explained through the so-called "wage drift in the peripheral countries", although the explanation lies in the wage disinflation policies and in the competitiveness and inflation discrepancies between the centre and the periphery of the zone (Bourgeot, 2013).

2. Current wage gaps within the European Union

In 2013, 20 out of the 27 member states of the European Union (EU) had a national minimum wage. The Eurostat data for 2013 show significant differences between the monthly gross minimum wage: from €158 in Romania, the lowest, and €1,874 in Luxembourg, the highest (fig 1).



Source: Eurostat data.

Fig.1. The monthly gross minimum wage in 2013 (euro)

The ratio between the extremes is 11.9:1. The highest gross minimum wage among the new member states is paid in Slovenia (€784/month), which is five time more than the same salary in Romania, and twice bigger than in Poland. As to the old EU member states, the southern ones (Spain, Portugal, Greece) have minimum wages well below €1,000/month (€566 in Portugal, €684 in Greece, €753 in Spain), and therefore much lower than those in the 'central'member states, where the gross monthly minimum wage was €1,502 in Belgium, €1,469 in The Netherlands, and €1,430 in France (Table 1).

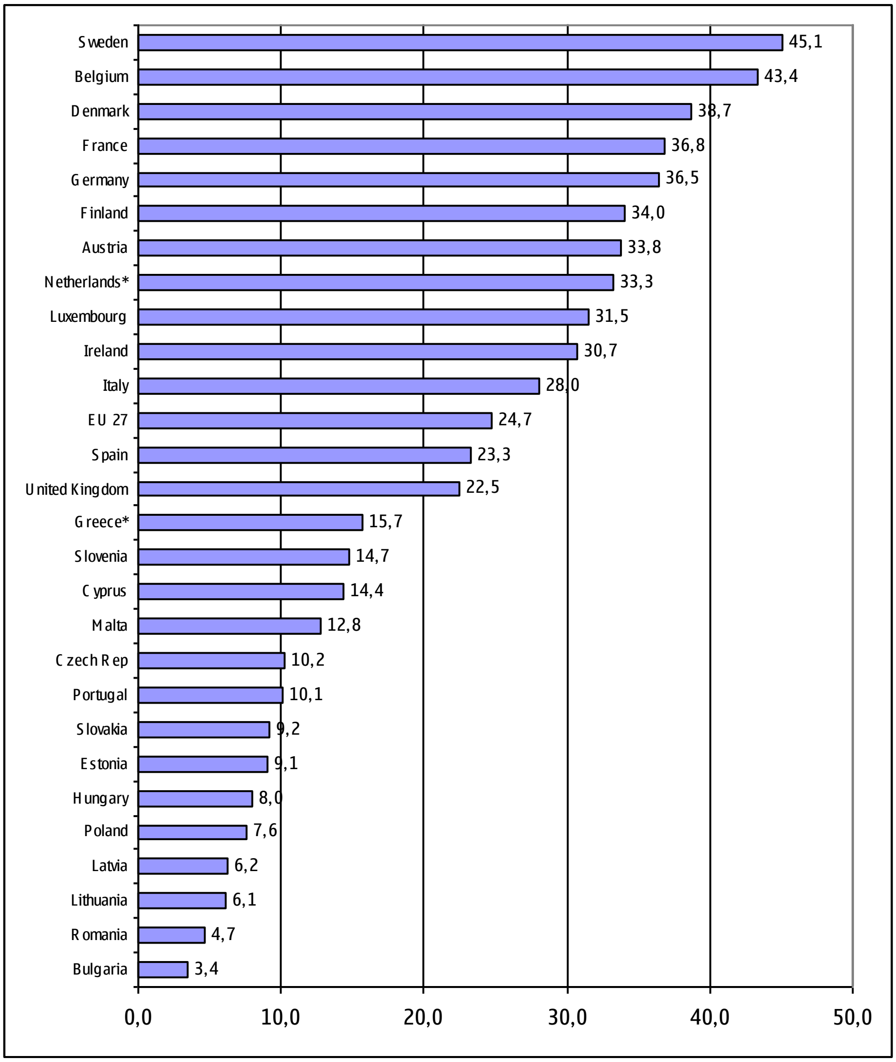
Table 1: The evolution of the monthly gross minimum wage in the EU

	Gross minimum wage (euro/month)			Gap (Romania = 1.0)		
	2004	2008	2013	2004	2008	2013
			Old member states			
Belgium	1,186	1,310	1,502	17.4	9.4	9.5
France	1,215	1,280	1,430	17.9	9.2	9.1
Greece	631	794	684	9.3	5.7	4.3
Ireland	1,073	1,462	1,462	15.8	10.5	9.3
Luxembourg	1,403	1,570	1,874	20.6	11.3	11.9
Netherlands	1,265	1,335	1,469	18.6	9.6	9.3
Portugal	426	497	566	6.3	3.6	3.6
United Kingdom	1,054	1,242	1,250	15.5	8.9	7.9
Spain	537	700	753	7.9	5.0	4.8
			New member states			
Bulgaria	61	112	159	0.9	0.8	1.0
Estonia	159	278	320	2.3	2.0	2.0
Latvia	119	230	287	1.7	1.7	1.8
Lithuania	130	232	290	1.9	1.7	1.8
Malta	541	617	697	8.0	4.4	4.4
Poland	175	313	393	2.6	2.3	2.5
Czech Republic	207	300	318	3.0	2.2	2.0
Romania	68	139	158	1.0	1.0	1.0
Slovenia	471	539	784	6.9	3.9	5.0
Slovakia	148	241	338	2.2	1.7	2.1
Hungary	202	272	335	3.0	2.0	2.1

Source: Author’s own compilation of Eurostat data.

In the past 10 years, the differences between the lowest and the highest monthly gross minimum wage have decreased considerably: from 20:1 in 2004 to 11.9:1 in 2013.And yet, in 2013, the minimum wage in Belgium, The Netherlands, and France was still 9 times higher than that in Romania.

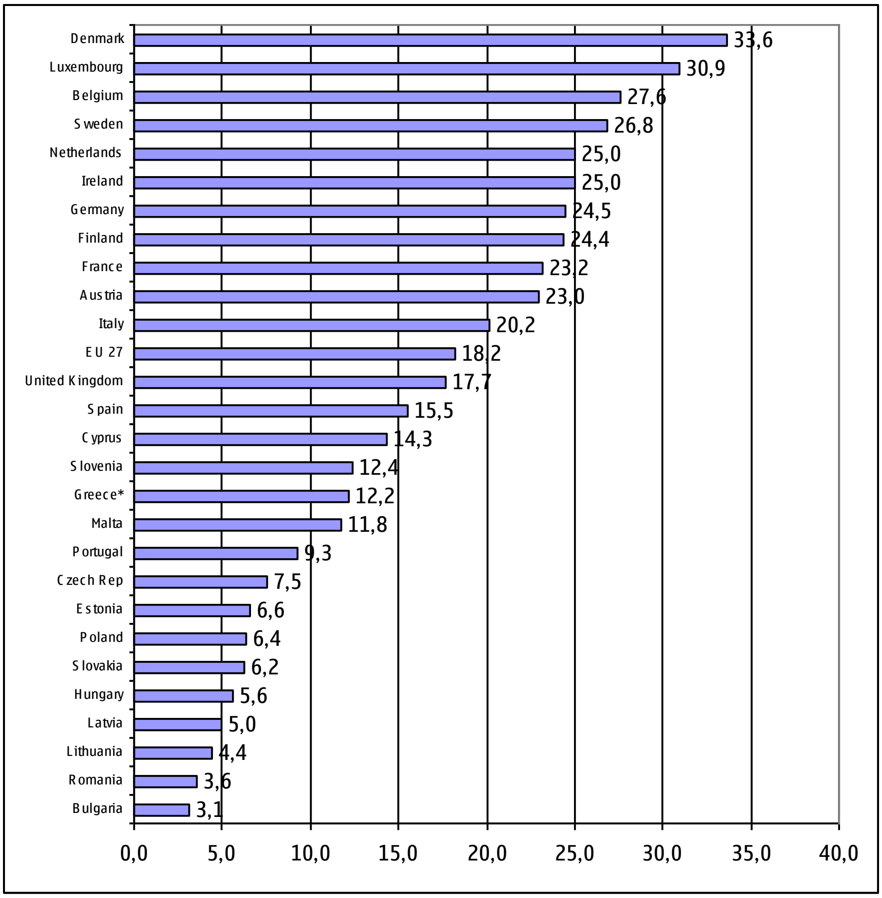
Similarly high continue to be the gaps between the hourly labour costs, and the hourly gross wages and salaries rates, by economic sector.For example, in 2013, in the industry sector, the highest hourly labour costs were reported in Sweden and Belgium (€45.1 and, respectively, €43.4), compared to only €3.4 in Bulgaria, and €4.7 in Romania, which translates into a ratio of almost 10:1 (fig. 2).



Source: Eurostat data.
Fig.2: Labour costs in industry in 2013 (euro/hour)

In the construction sector, the ratio between the labour salary costs in Sweden and Romania was, in the same reference year, 10:1; in the corporate services sector, the ratio was 8.4:1, and in education, health, and social care, the hourly rates in LuxembourgandDenmark exceeded 8.6 and respectively 8.3 times the same cost in Romania.

Also in 2013, the hourly rate of gross wages and salaries in industry, construction, and services (with the exception of public administration, defence, and compulsory social insurance) were, on the average, €18.2/hour for the EU 27, compared to €33.6 /hour in Denmark, to €3.1 in Bulgaria, and to €3.6 in Romania (fig. 3).



Source: Eurostat data.

Fig. 3: Gross wages and salaries in the industry, construction, and services sectors in 2013 (euro/hour)

A number of 11 member countries paid hourly gross salaries above 20 euro; in 6 member states the gross salary ranged between €11.8 and€17.7/hour, and in 7 other countries the gross salary ranged between 5 and 9.3 euro/hour; in only three member countries the gross hourly salary was below 5 euros.The hourly gross wages and salaries rate eventually reflects in the annual values of the salaries, aggregated at the level of each national economy (Table 2).

It is obvious that, in 2013, the total annual amount of the compensation of employees was 396.4 bn. euros in the new member states, compared to 6,028 bn. euros in the 15 old member states.

Table 2: Compensation of employees (bn. euro)

	2000	2004	2007	2008	2013
European Union 27	4,612.1	5,223.8	5,983.6	6,096.6	6,426.5
Austria	106.9	115.4	131.5	138.5	158.6
Belgium	128.4	147.3	168.0	177.3	201.5
Denmark	91.3	105.6	124.7	131.3	137.2
Finland	62.4	73.3	85.5	91.5	100.7
France	749.5	868.8	977.0	1.007.3	1.098.9

Germany	1,114.1	1,147.5	1,187.0	1,229.4	1,414.8
Greece	45.9	64.9	78.4	82.9	57.4
Ireland	41.6	59.0	79.4	82.4	68.7
Italy	469.8	557.2	633.1	658.0	665.9
Luxembourg	10.2	12.9	16.1	17.5	21.7
Netherlands	211.8	251.0	280.3	294.7	310.5
Portugal	62.6	73.6	82.9	85.7	79.9
United Kingdom	877.2	955.5	1.108.2	975.7	1.020.6
Spain	312.2	402.0	504.1	537.6	465.8
Sweden	146.9	159.2	181.4	179.4	226.3
Total EU 15	4,430.7	4,993.3	5,637.6	5,689.3	6,028.6
Bulgaria	5.1	7.1	10.4	12.5	16.3
Cyprus	4.3	5.7	7.0	7.5	7.0
Estonia	2.8	4.3	7.4	8.2	8.7
Latvia	3.5	4.4	9.9	11.6	9.6
Lithuania	4.9	7.3	12.3	14.4	13.7
Malta	1.9	2.2	2.5	2.7	3.2
Poland	74.7	73.9	110.5	135.5	137.6
Czech Republic	25.7	38.0	54.5	64.8	63.5
Romania	16.0	22.5	48.6	58.7	47.2
Slovenia	11.1	13.8	17.2	19.0	18.1
Slovakia	9.0	12.5	19.8	23.4	27.0
Hungary	22.6	37.7	46.5	49.1	44.5
Total NMS	181.5	229.4	346.7	407.4	396.4

Source: Eurostat data.

Calculated as an annual average per capita, in 2013,the amount of total compensation of employees stood at €12,779 for the EU 27, of which €15,013 in the old member states, and €3,912 in the new member states.The maximum amount of compensation of employees paid per year was €40,442 and was reached in Luxembourg, followed by Denmark with €24,493, Swedenwith €23,686, Austria with €18,767, The Netherlandswith 18,505, the list ending with Greece (€5,185), Romania (€2,356), and Bulgaria (€2,231).It stands to reason that such pay gaps entail similar gaps in the amounts collected for pension funds, unemployment benefits, health insurance, etc.

3. An assessment of the wage gaps consequences

The varying amount of pay in an internal market where the free circulation of labour is enshrined in the EU legislation is generating huge demographic and economic complications.For example, Eurostat data demonstrate that, since 1990, the total number of inhabitants in the new member states has been decreasing.

In the time span 1990-2013, in the 15 old member states the total population grew by more than 38 mil. persons, while the overall population of the new member states has dropped by 5.6 million persons. If we take as an example only the half decade between 1998 and 2012, we can see that the migratory trend brought 4.3 mil. persons to Italy, 2.7 million persons to the United Kingdom, 2.26 mil. persons to Germany, 0.68 mil. persons to the Netherlands, 0.60 mil. persons to Sweden, and 0.45 mil. persons to Ireland and Austria each, while the new member states had, during the same reference time, a negative population growth.

Romania lost, during the period 1998 to 2012, over 2.4 million of its inhabitants, Bulgaria's population decreased by 0.956 mil. persons, Hungary lost 0.348 mil. persons, and Lithuania lost 0.552 million persons of its population, etc.

The overwhelming part of the more than 3 million Romanian citizens that have left Romania since 1990 (of which one third for Spain, and one third for Italy) were active individuals, most of them with a high level of education, in the age segment of up to 40 years.

Romania is now struggling with a deficit of workforce in education, health, and also in the construction, manufacturing, and agricultural sectors. *Colegiul Medicilor*, the largest professional association of Romanian physicians has published data showing that Romanian hospitals at present have been left with only 13,500 physicians, compared to the 26,000 doctors the system would require; annually, some 3,000 fresh graduates of medical schools enter the system, while other 3,500 physicians leave the health care system. Romanian resident physicians are enticed with salaries between 3,000 and 5,000 euros per month in the United Kingdom, Germany, Sweden, etc., while in Romania they are paid 300 to 400 euros per month. ColegiulMedicilor estimates that Romania has lost in the region of 25,000 physicians, and over 40,000 medical assistants.

One other consequence of this exodus of workforce that has been made possible by the free circulation of labour and the temptation of a better pay, is the worsening in Romania of the balance between the total number of retirees (5.2 million persons in 2013) and the total number of employees (4.4 million persons), which has serious consequences on the sustainability of the social insurance, health, and unemployment funds budgets, as well as for the consolidated public budget.

The enormous gaps between salaries have a direct effect on the quality of life in all its aspects, particularly on the purchasing power, which, in the new member states is considerably lower due to the price convergence process.To be specific: while the gap between salaries was in 2013 within a range of 5 – 10:1, the consumer prices for goods and services varied in terms of decimals (sub-unit values). Compared to a EU 28 average (100,0), the lowest level of consumer prices for goods and services was 48% in Bulgaria, 57% in Romania and Poland, 60% in Hungary, and some 70% in The Czech Republic, Slovakia, and Latvia.The prices of electronic appliances in Romania, for example, stood at 101% of the EU average; also in Romania, prices of food represented 69% of the EU average, and the prices for footwear and passenger transport, 87%.

Conclusions

The standard theory says that the higher the wages, the higher can the unemployment rate be. But Eurostat statistics indicate that, in 2013, the highest unemployment rates were in Spain (26.1%), Greece (27.5%), with Portugal (16.4%) and Cyprus (15.9%) following them, all of them being countries that were far from the top notches in the minimum wage scale or in the general level of pay.The same year, the countries with the highest salaries, such as Belgium, Denmark, Luxembourg, The Netherlands, Sweden or Austria, had unemployment rates of 8.4%, 7.0%, 5.9%, 6.7% 8.0%, and 4.9%, in the same order.Unemployment rates among youths aged below 25 had reached, in 2013, 58.3% in Greece, 55.5% in Spain, 40% in Italy, 38.1% in Portugal, compared to 16.9% in Luxembourg, 13.0% in Denmark, 11.0% in the Netherlands, and 9.2% in Austria.As a rule, total unemployment and youths unemployment rates may be worsened by the country's rate of indebtedness or by the financial and monetary deficits caused by the crisis, and also by the pay gaps, and, no less, by the competition with workers from the new member states, who accept to be underpaid.

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